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STATE AND LOCAL GOVERNMENTS

GASB Gives Pitch on Pensions

'Exposure Drafts' Face Sticker Shock

Monday, July 11, 2011

By [Joan Quigley](#)

WASHINGTON — The Governmental Accounting Standards Board unveiled a pension accounting and reporting proposal Friday that would fundamentally alter how cash-strapped states and localities report pension liabilities and pose challenges for them.

The so-called exposure drafts would, for the first time, require state and local governments to report unfunded pension liabilities on their balance sheets, creating "sticker shock" and potentially raising concerns from politicians, rating agencies, and others about how the liabilities will be funded in the future.

In a 17-page plain-language supplement released late Friday, GASB said the proposed standards would lead to "significant improvements" in its pension standards.

Departing from earlier guidance, which was published as preliminary views in June 2010, the accounting-standards setter released separate documents: one for reporting by government employers that provide pension benefits and a second for pension plans that administer the benefits.

The preliminary views focused only on reporting by employers.

This latest proposed guidance, like GASB's preliminary recommendations last year, would not only require governments to report unfunded pension liabilities on their balance sheets, but would also change the formula states and localities use to convert projected pension benefit payments into present value, based on an assumed "discount rate."

Specifically, GASB recommends that pension plans use a historic rate of return — typically 7% to 8% — only to the extent the plan has sufficient assets, set aside in an irrevocable trust, to make projected benefit payments.

When a plan reaches a point of no longer having sufficient assets set aside in a trust for long-term investments, it would have to shift to a lower, so-called risk-free rate of return pegged to a tax-exempt, high-quality, 30-year municipal bond index rate, typically 3% to 4%.

"As I'm sure you know, this is a big deal," GASB chairman Robert Attmore said in an interview.

But state and local pension groups, many of whom objected to the proposed changes in comment letters last year, expressed new concerns about the board's recommendations, especially shifting unfunded liabilities from the notes to the balance sheet.

"Government sponsors and their defined-benefit pension plans will be challenged by the tough new changes to its regulations that GASB is proposing," the National Association of State Retirement Administrators and the National Council on Teacher Retirement warned in a joint statement released Thursday.

"Without exception, the state and local government retirement system community is committed to having the highest-quality standards of accounting and financial reporting possible."

Currently, many governments disclose pension information in the footnotes to their financial statements and generally only report the contributions they are required to make in a given year, as well as what they actually paid.

"Recognition in the financial statements alongside other liabilities such as outstanding bonds, claims and judgments, and long-term leases, will clearly put the pension liability on an equal footing with other long-term obligations," the board said in an overview released late last week.

But pension experts dispute that view, saying information about a plan's unfunded liabilities is already available.

"There's nothing new that GASB is proposing in terms of substance," said Keith Brainard, director of research for the NASRA. "What GASB is proposing is moving where it's presented. But it's not a new number."

Other pension experts say GASB's balance-sheet proposal could prove overwhelming to a plan's assets.

By one measure, the average impact of such a reporting switch could translate into an average balance-sheet impact of roughly \$70,000 per full-time public employee, according to Girard Miller, a senior strategist for retirement and benefit plans at Public Financial Management Inc. in Los Angeles.

Miller derived his figure by simple math: dividing the aggregate estimated unfunded pension liability, or roughly \$1 trillion, by the number of state and local government employees nationwide, or roughly 14.5 million, according to data from the Census Bureau.

"Our estimates are not intended to be scare tactics," Miller said. "It's difficult to translate trillion-dollar numbers into an impact on a municipality."

In addition, GASB made several recommendations in its latest guidance that were less detailed in its preliminary views last year.

The board's proposed standards would require state and local governments to provide enhanced disclosure in the notes to their financial statements about an array of pension data and calculations.

These would include descriptions of the plan and benefits provided; the number of retirees and beneficiaries; the number of active and inactive employees; "significant assumptions" in measuring net pension liability; descriptions of benefit changes; assumptions about the discount rate and the impact on the total liability of a 1% change in the discount rate.

Governments also would have to disclose more about their net pension liability in the notes.

In addition, they would be required to provide supplementary schedules showing, for the past 10 years, the beginning and ending balances of and changes in the total pension liability as well as the plan trust's net position and the net pension liability.

If the proposals for enhanced note disclosure and supplemental schedules become requirements, the board noted in the overview, "users would have access to highly significant information that may not have been available previously, including information regarding the measurement and funding approaches a government utilizes."

GASB will seek public comments on the exposure drafts this fall and will hold public hearings, slated for October, in Chicago, New York and San Francisco. Comments are due by Sept. 30.

The board collected public comments and held hearings on its preliminary views last fall, and expects to release final pension rules in June 2012.

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